

A Message to Arkansas Taxpayers

Several Arkansas Income Tax law changes were made in 1997 which affect this year's tax return. These and other changes for 1997 can be found on page 5 of this booklet. There were also several tax reductions adopted for tax year 1998; however, some of these reductions will not take effect if the sales tax on food is repealed prior to November 15, 1998. You may be aware of changes made to the Federal Income tax law by the Federal Taxpayer Relief Act of 1997. Arkansas has not yet adopted any of the provisions contained in that Act.

Last year 115,000 Arkansas taxpayers filed electronically using the joint Federal and State Electronic Filing Program or Arkansas Telefile. Electronic filing reduces processing time from weeks to days. I hope you will take advantage of these easier and faster methods for filing income tax returns. Tax due returns can also be conveniently filed electronically.

Please consider using the helpful hints below when filing your tax return to speed up your refund and return processing:

- > Use the 1997 Income Tax forms provided in this booklet.
- > Use the peel-off label only if your Social Security Number, the spelling of your name and mailing address are correct.
- > Complete each line that applies to you.
- > Attach all W-2 forms, required State or Federal schedules and any required information.
- > Make sure to sign and date your return before mailing it.
- > When filing on the same return, both husband and wife must sign.
- > File electronically, or mail your return early to ensure a quicker refund.

For your convenience, we are assisting the Secretary of State's Office by including the Arkansas Voter Registration Application in this tax booklet. This form can be used for new voter registrations or to update current registration information. If needed, complete the form and send it to the Secretary of State's Office.

We have received several requests from taxpayers that we conceal the tax form mailing label information that contains their Social Security Number. In response to these requests, this year we have concealed the Social Security Number on all forms.

We appreciate your suggestions and constructive criticism. We want to provide you the best service possible. Please mail your suggestions and comments to: Manager Individual Income Tax Section, P.O. Box 3628, Little Rock, AR 72203-3628.

Thank you,



Tim Leathers
Deputy Director and
Commissioner of Revenue



Governor Mike Huckabee

ARKANSAS 1997

Full Year / Part Year / Nonresident Individual Income Tax Booklet

CONTENTS	PAGE
Telephone Information	4 and 20
Tax Changes	5
Special Information	7
Instructions	9
Tax Tables	21-28
Tax Forms	Form Number
Full Year Resident.....	AR1000
Nonresident and Part-Year Resident.....	AR1000NR
Capital Gains and Losses	
Adjustment Schedule	AR1000DGW
Voter Registration Application	

130-02-01

P.O. Box 1000
State of Arkansas
State Income Tax
Little Rock, Arkansas 72203-1000

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The State of Arkansas' automated telephone information system allows taxpayers to listen to recorded information about general filing information. It is recommended that you have your tax information on hand as well as a pencil handy to write down important information. The different services and telephone numbers are listed below:

Automated Refund Inquiry

(501) 682-0200 or 1-800-438-1992 (In Arkansas Only)

This service allows taxpayers with a touch tone telephone to check the current status of their refund. The system will ask for certain information from your tax return so be sure to have a copy of the return with you when you call. The average time to process a refund is approximately 10 to 12 weeks. This time can vary based on how early you filed your tax return or if you made any mistakes preparing the return. This service is available 24 hours a day, 7 days a week. This information is updated weekly.

Tele-Tax

(501) 682-0200 or 1-800-438-1992 (In Arkansas Only)

In addition to the Tax Information Hot-Line where you can access recorded general filing information, the State of Arkansas provides a Tele-Tax information service where you can access more specific information. The list of subjects below are areas that taxpayers usually request additional information or explanation. If you have a touch tone telephone, you will be able to enter a three-digit code to access additional information. This service is available 24 hours a day, 7 days a week.

TELE-TAX INFORMATION

Using a touch-tone telephone dial: (501) 682-0220 or 1-800-438-1992 (In Arkansas Only); when prompted, enter the subject number.

#	FILING REQUIREMENTS	#	ADJUSTMENTS TO INCOME	#	GENERAL INFORMATION
100	Who Must File?	400	Individual retirement arrangements (IRA's)	700	Substitute tax forms
101	Which Form - AR1000, AR1000NR, AR1000S?	401	Alimony paid	701	Refunds - how long to wait
102	When, where and how to file	402	Border city exemption (Texarkana - AR and TX)	702	How to request copies of tax returns
103	Which filing status?	403	Permanently disabled child	703	Extensions of time to file
104	Dependents defined	404	Medical Savings Accounts	704	Penalty for underpayment of estimated tax
105	Estimated Tax	405	Intergenerational Trusts	705	W-2 forms-what to do if not received
106	Amended returns	406	Moving expenses	706	Estate Tax
	INCOME DEFINITIONS		ITEMIZED DEDUCTIONS		NOTICES AND LETTERS
200	Wages, salaries and tips	500	Should you itemize?	800	Taxpayer Bill of Rights
201	Interest received	501	Medical and dental expense	801	Billing procedures
202	Dividends received	502	Taxes	802	Penalty and interest charges
203	Alimony received	503	Contributions	803	Collection procedures
204	Business income	504	Interest expense		NON RESIDENT - PART YEAR RESIDENT
205	Capital gains and losses	505	Casualty losses		
206	Pensions and annuities	507	Miscellaneous expenses	900	Which return to use
209	Farming and fishing income	508	AGI over \$121,200 adjustment	901	How to compute tax
300	Gambling income and expenses		TAX COMPUTATION	902	How to compute apportionment
301	Nontaxable income	600	How to choose the right tax table		ELECTRONIC FILING
302	Earnings of clergy	601	Standard deduction	909	Arkansas Electronic Filing Program
		602	Capital gains tax		
		603	Tax credits, general		
		604	Child care credit		
		605	Other states tax credit		
		606	Business and incentive credits		
		607	Adoption Credit		

ARKANSAS TAX CHANGES FOR 1997

NOTE: THE FOLLOWING IS A BRIEF DESCRIPTION OF EACH ACT AND IS NOT INTENDED TO REPLACE A CAREFUL READING OF THE ACT IN ITS ENTIRETY.

POLITICAL CONTRIBUTIONS

Initiated Act 1

This act provides an individual income tax credit for contributions to political candidates and candidates for positions in subdivisions of the state, e.g. city, county, school districts, etc. The credit is limited to \$50 per person or \$100 per tax return. **The credit does not apply to contributions made to candidates for federal offices.**

Effective Tax Year Beginning 1-1-97.

*** At the time this booklet went to press, the validity of Initiated Act 1 had been challenged in U.S. Federal District Court. The availability of this credit on the 1997 return and subsequent years is uncertain.***

EDUCATIONAL INCENTIVES

Act 1309

Establishes the Arkansas Tax-Deferred Tuition Savings Program in Accordance with IRC §529. An Arkansas resident may make contributions on behalf of a named beneficiary to a special tax-deferred account for the purpose of accumulating funds to pay the expenses of attending a post-secondary institution of higher education. "Expenses" shall be limited to tuition, fees, books, supplies and equipment required for enrollment or attendance at the post-secondary institution. The contributions will be held, invested and accounted for by the Arkansas Teacher Retirement System. Earnings and distributions are excluded from the income of the contributor and the beneficiary of the account. **Effective Date 8-1-97.**

TECHNICAL CORRECTIONS

Act 951

This act primarily re-adopts a number of federal income tax provisions as they exist on 1-1-97 to continue the practice of having many Arkansas income tax credits and deductions mirror federal tax law.

Readopts Internal Revenue Code Sections:

IRC §72, 219, 401-404, 406-416, and 457 Changes to deferred compensation and qualified plans;

IRC §104 Some punitive and compensatory damages are taxable;

IRC §213 Long-term medical care insurance premiums deductible;

IRC §274 Deductibility of business and travel expenses;

IRC §167, 168 & 179 Changes to depreciation and expensing of property. Increase in expense limitations under Sec. 179 phased-in over several years;

IRC §469 Passive activity loss regarding oil and gas properties;

IRC §1237, 1245, 1248 & 1250 Minor changes to calculation of capital gains and losses.

Subchapter S Several changes related to S corporation stock and tax

treatment of S corporations; for example the number of shareholders allowed increased from 35 to 75, and shareholders may now be individuals, estates and certain trusts as described in IRC §1361.

IRC §112 & 692 Combat pay exclusion increased for military officers to achieve parity with that allowed for enlisted personnel;

Subchapter M Relates to regulated investment companies and real estate investment trusts. Subchapter M election made for federal purposes deemed made for state purposes as well.

Newly adopts IRC sections:

IRC §220 Contributions to Medical Savings Accounts (MSA) are deductible;

IRC §101 Life insurance policy proceeds excludable from income, even when paid prior to the death of a terminally or chronically ill insured;

IRC §1033 Exclusion from income of gain resulting from an involuntary conversion of taxpayer's property;

Subchapter M New provisions on taxation of financial asset securitization investment trusts (FASITs) adopted;

IRC §23 Determines tax credit for adoption related expenses (Arkansas credit is limited to 20% of the federal credit).

NOTE: The above Federal provisions were adopted as they existed on January 1, 1997. The State of Arkansas has not yet adopted any of the provisions contained in the Federal Taxpayer Relief Act of 1997.

SCHOOL SURCHARGE

Act 1040

This act repeals the 10% income tax surcharge that was part of the 1995 school funding legislation. The surcharge applied only to tax year 1996 and not subsequent years.

Effective Date 4-2-97.

ARKANSAS DISASTER RELIEF PROGRAM

Act 1181

This act provides for an individual income tax return "check-off" for contributions to the Arkansas Disaster Relief Program. Donations to this program will be used by the Office of Emergency Services.

Effective Tax Years Beginning 1-1-97.

BUSINESS AND INCENTIVE TAX CREDITS

Act 421

This act increased the maximum income tax credit allowed for surface water projects located in "critical groundwater areas" as determined by the Arkansas Soil and Water Conservation Commission. These are projects which utilize surface water rather than groundwater. The maximum credit increases from \$9,000 to \$30,000 for industrial or com-

mercial projects with an increased carry forward period from 2 years to 4 years. The maximum credit allowable for agricultural or recreational projects remains \$9,000 with the carry forward remaining at 2 years.
Effective Date 8-1-97.

┆ **Act 807**

This act accomplishes the following:

1. Amends the 1993 Enterprise Zone Act to add regional headquarters and steel service centers as qualifying businesses. These businesses must hire at least 50 new employees. Also provides that for projects certified after 3-25-97, the income tax credit may be carried forward 9 years. Projects currently certified are limited to a 4 year carry forward.
2. Provides for decertification of a business previously qualified for Enterprise Zone benefits if the business ceases to meet the statutory requirements that established the credit.
3. Defines "new permanent employee" for purposes of the Enterprise Zone Act, the Arkansas Economic Incentive Act and the Arkansas Economic Development Incentive Act as a position or job which was created as a result of the project and which is filled for at least 26 weeks per year.
4. Amends the Arkansas Economic Development Incentive Act to reduce from 100 to 50 the minimum new employees needed to qualify an office sector business for tax benefits.
5. Amends the Arkansas Economic Development Act to limit the income tax credits available under the act by allowing the credit to be taken only against Arkansas income tax attributable to the project. The tax liability of the project is calculated by apportioning the liability based on payroll, property and sales "factors" of the project relative to the Arkansas factors.

Effective Date 3-25-97.

┆ **Act 1117**

Provides tax incentives for biotechnology business. Credit equal to 5% of the costs of constructing or purchasing a biotechnology facility, 30% of the cost of training employees and 20% of certain research costs. The total amount of income tax credits may be used to offset the first \$50,000 in income plus 50% of the remaining income over \$50,000. Unused credits may be carried forward for 9 years.

Effective Date 1-1-97.

┆ **Act 1331**

Allows an income tax credit for investors in the construction or rehabilitation of "affordable housing". Proposals for such projects are to be approved by the Arkansas Development Finance Authority. The tax credit is equal to 30% of the total investment and may be carried forward for 5 years. The total amount of tax credits available for all taxpayers for any tax years is limited to \$750,000 per calendar year.

Effective Date 8-1-97.

┆ **Act 1332**

Allows an income tax credit equal to 20% of the federal low-income housing tax credit IRC §42. The housing project is to be certified by the Arkansas Development Finance Authority. Unused credits may be carried forward for 5 years. The total amount of tax credits available for any tax year is limited to \$250,000 per calendar year.

Effective Date 8-1-97.

LLC, PARTNERSHIP & CORPORATIONS

┆ **Act 479**

This act amends State law concerning limited liability companies (LLC), the Uniform Partnership Act, and the Revised Limited Partnership Act to allow mergers and consolidations between LLC's, corporations and partnerships. Currently, partnerships are not included in the merger provisions. The franchise tax provisions are amended to apply to LLC's.

Effective Date 3-13-97.

┆ **Act 1189**

This act allows a parent corporation to exclude from income dividends received from a subsidiary if the parent corporation owns at least 80% of the subsidiary's stock.

Effective Date 1-1-97.

TRUSTS

┆ **Act 585**

This act authorizes a trustee to divide a trust into two or more separate trusts if the division of the trust is in the best interest of the beneficiary or would result in lower taxes, provided that such division is not prohibited by the original trust agreement. By dividing the trust corpus, any trust income is also divided among the new trusts with each trust taxed separately.

Effective Date 8-1-97.

┆ **Act 1345**

Allows a deduction from income for contributions made to a long-term intergenerational trust. This is a trust established for an individual under the age of 18 in order to provide funds for the minor's retirement. Contributions are limited to \$4,000 per year. The beneficiary may receive distributions beginning at age 55. All distributions (principal and interest) are taxed to the beneficiary.

Effective Date 8-1-97.

MISCELLANEOUS

┆ **Act 1280**

This act allows debts to technical institutes to be collected by capturing state income tax refunds. Currently, colleges and universities as well as various state agencies and offices are able to set off refunds for debts.

Effective Date 8-1-97.

SPECIAL INFORMATION FOR 1997

NONRESIDENTS AND PART YEAR RESIDENTS FILING ON FORM AR1000NR MUST ATTACH A COPY OF THEIR COMPLETE FEDERAL RETURN. IF A COPY OF THE COMPLETE FEDERAL RETURN IS NOT ATTACHED, YOUR ARKANSAS RETURN CANNOT BE PROCESSED AND WILL BE RETURNED TO YOU.

FEDERAL TAXPAYER RELIEF ACT OF 1997

The State of Arkansas has not adopted the provisions of the Federal Taxpayer Relief Act of 1997. The calculation of Capital Gains or Losses and the Gain on the Sale of Your Home may be different for Arkansas and for Federal purposes. The AR1000DGW has been changed from last year to include space to report and calculate short and long term capital gains and losses. If you sold your home in 1997, you will need to complete the Arkansas AR2119.

EXTENSION TO FILE

An automatic extension of time for filing your Federal Income Tax Return may be used when you file your Arkansas Return. If you have filed Federal Form 4868, it is no longer necessary to attach that form to the return. Simply check the box on the face of the Arkansas Return and mail the return prior to the final date stated on the Federal Extension. For additional extensions of time, you must still attach an approved copy of the additional Federal Extension Form 2688.

ELECTRONIC FILING

The State of Arkansas participates in the Federal/State Electronic Filing Program for Individual Income Tax. The benefits of Electronic Filing are:

- | Simultaneous Federal/State filing. Both your Federal and State of Arkansas income tax returns are filed electronically in one transmission.
- | Processing. If you file a complete and accurate return, your refund will be issued within ten (10) days after acknowledgment. Taxpayers with Tax Due returns will be sent billings on unpaid balances on May 15th.
- | Accuracy. Computer programs catch 98% of tax return errors before your return is received and accepted.
- | Acknowledgment. The State of Arkansas notifies your transmitter within two (2) days that your return has been received and accepted.

The program is limited to full year residents filing a 1997 Arkansas Individual Income Tax Return. However, filers that claim other state tax credit, adoption expense tax credit or business and incentive tax credits are not eligible to file electronically. Electronic filing is available whether you prepare your own return or use a preparer. In addition to tax preparers, other firms are approved to offer electronic filing services. Please check with your tax preparer or electronic filing service to see if they are participating in the Federal/State program.

SET OFF REFUNDS

If you owe a debt to one of the agencies listed below or if you have filed jointly with a spouse or a former spouse who does, all or part of your refund may be withheld to satisfy the debt. Agencies that may claim your refund are:

DEPT. OF FINANCE & ADMINISTRATION	DEPT. OF HUMAN SERVICES
STATE SUPPORTED COLLEGES,	DEPT. OF HIGHER EDUCATION
UNIVERSITIES, & TECHNICAL INSTITUTES	ARKANSAS CIRCUIT, JUVENILE and CHANCERY COURTS
UAMS & AFFILIATED CLINICS	INTERNAL REVENUE SERVICE
CHILD SUPPORT	

If your refund is withheld, you will receive a letter stating which agency claimed your refund and the appropriate telephone number. You must contact the agency claiming the refund to resolve any questions or differences. Income Tax personnel will be unable to assist you regarding these matters.

Notice to Married Taxpayers

If only one of the married taxpayers owes the debt, the taxpayer who is not liable can avoid having his/her refund applied to the debt if both taxpayers file Status 5, married filing separately on different returns.(See Instructions for filing Status 5).

ASSISTANCE IN TAX PREPARATION

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) personnel will help you with your return. Contact the Internal Revenue Service for the location and dates to obtain assistance in your area.

HOMESTEAD PROPERTY TAX REFUND

The Arkansas Homestead Property Tax Refund Act allows real estate tax refunds to certain taxpayers. To be eligible, an individual must be 62 years of age or older, a resident of Arkansas for the two (2) years prior to filing a claim, own and occupy the home the previous year, not exceed \$15,000 in total household income (including social security and other retirement benefits) and provide proof that the tax is paid (not eligible for refund if public funds are used for the payment of taxes). For complete details please call (501) 682-7265, or outside Pulaski County 1-800-482-1167.

CHECK OFF PROGRAM

ARKANSAS DISASTER RELIEF PROGRAM

Act 1181 of 1997 allows taxpayers to make a direct contribution to the Arkansas Disaster Relief Program. Donations to this program will be used by the Office of Emergency Services. If you desire to make a contribution to the Arkansas Disaster Relief Fund and do not expect a refund, fill in the appropriate blank on the contribution coupon, detach and mail the coupon along with your personal check to the address found on the coupon. The amount donated will be tax deductible on your 1998 State Tax Return as a charitable contribution.

U. S. OLYMPIC COMMITTEE PROGRAM CONTRIBUTION

Act 471 of 1993 allows taxpayers to make a direct contribution to the U.S. Olympic Committee Program. If you desire to make a contribution to the U.S. Olympic Fund and do not expect a refund, complete the contribution coupon, detach and mail the coupon along with your personal check to the address found on the coupon. The amount donated will be tax deductible on your 1998 State Tax Return as a charitable contribution.

CONTRIBUTION COUPON

Amount of Donation

ARKANSAS DISASTER RELIEF PROGRAM | CLS 1162 \$ _____

U.S. OLYMPIC COMMITTEE PROGRAM | CLS 1145 \$ _____

TOTAL..... \$ _____

Name _____ SSN _____

Address _____

City _____ State _____ ZIP _____

Mail to:

Arkansas Income Tax Section Unit
P.O. Box 3628
Little Rock, AR 72203-3628

INSTRUCTIONS

THESE INSTRUCTIONS ARE FOR GUIDANCE ONLY AND DO NOT STATE THE COMPLETE LAW.

A. WHO MUST FILE A TAX RETURN

1. IF YOU WERE A FULL YEAR RESIDENT OF ARKANSAS FOR 1997, USE CHART BELOW TO SEE IF YOU MUST FILE A RETURN.

To use the chart, first find your marital status at the end of 1997. Then, read across to find your filing status and age at the end of 1997. You must file a return if your gross income was at least the amount shown in the last column. Gross income means any and all income (before deductions) that you receive except the kinds of income specifically described in Section J of these Instructions.

MARITAL STATUS	FILING STATUS	AGE*	GROSS INCOME
Single (including divorced and legally separated)	Single	under 65	\$ 5,550
		65 or older	\$ 6,400
Married	Head of Household	under 65	\$ 7,150
		65 and older	\$ 8,000
	Married filing joint	under 65 (both spouses)	\$10,000
		65 or older (one spouse)	\$10,650
		65 or older (both spouses)	\$11,300
Widowed in 1995 or 1996 not remarried in 1997	Married filing separately, same, or different returns	any age	\$ 2,150
Widowed in 1995 or 1996 not remarried in 1997	Qualifying Widow(er) with dependent child	under 65	\$7,850
		65 or older	\$8,500

*If you turned age 65 on January 1, 1998, you are considered to be age 65 at the end of 1997.

If your gross income is less than the amount shown in the last column for your filing status, you are not required to file a return. You should file a return to claim any refund due.

2. NONRESIDENT or a PART-YEAR RESIDENT and you received income from Arkansas sources, you must file an Arkansas Tax Return AR1000NR regardless of your income level. See Section I for additional information. **Attach a copy of your Federal return.**

3. The EXECUTOR OR ADMINISTRATOR OF THE ESTATE OF SOMEONE WHO DIED LAST YEAR, you must file a tax return for the person who died if any of the conditions listed below apply to that person.

- (a) The person was SINGLE (under age 65) and earned a gross income of \$5,550 or more between January 1 and the time of death.
- (b) The person was SINGLE (age 65 and older) and earned a gross income of \$6,400 or more between January 1 and the time of death.

- (c) The person was MARRIED (both under age 65) with a combined gross income of \$10,000 or more.
- (d) The person was MARRIED (one under age 65) with a combined gross income of \$10,650 or more.
- (e) The person was MARRIED (both age 65 and older) with a combined gross income of \$11,300 or more.

4. Even if you do not have to file, you should file to get a refund if Arkansas Income Tax was withheld from any payments to you.

THE ONLY WAY YOU CAN GET YOUR REFUND IS TO FILE AN ARKANSAS TAX RETURN.

B. WHEN TO FILE YOUR TAX RETURN

1. You can file your Calendar Year Tax Return any time after December 31, 1997, but NO LATER THAN MAY 15, 1998, (unless an extension has been granted). PLEASE FILE EARLY. If the State owes you a refund and you wait until APRIL 15 through MAY 15 to file, it will take longer for you to receive your refund.
2. If you file a Fiscal Year Tax Return, your return is due NO LATER THAN four and one-half (4 1/2) months following the close of the income year.

NOTE: *The date of the postmark stamped by the U. S. Postal Service is the date you filed your return. Be sure to apply enough postage or your return will not be delivered by the Postal Service. The Income Tax Section does not refuse mail - that is done at the Post Office.*

3. Statute of Limitations - Refunds. An amended return or verified claim for refund of an overpayment of any state tax for which the taxpayer is required to file a return shall be filed by the taxpayer within three (3) years from the time the return was filed or two (2) years from the time the tax was paid, whichever of the periods expires the later.

C. WHERE TO FILE

1. If you owe tax to the State, mail your TAX DUE RETURN and check or money order to:
Arkansas State Income Tax
P. O. Box 2144
Little Rock, AR 72203-2144
2. Make your check or money order payable to: Department of Finance and Administration. Write your Social Security Number on the check.
3. If you do not owe tax to the State mail your NO TAX DUE RETURN to:
Arkansas State Income Tax
P. O. Box 8026
Little Rock, AR 72203-8026
4. If you are expecting a refund, mail your REFUND RETURN to:
Arkansas State Income Tax
P.O. Box 1000
Little Rock, AR 72203-1000

D. FORMS

The Department of Finance and Administration mails a tax booklet to most taxpayers which includes forms and instructions for residents, part-year and nonresidents. If you need forms, you may get them at your county revenue office, or write:

Arkansas State Income Tax Forms
P. O. Box 3628
Little Rock, AR 72203-3628

You may also obtain forms by visiting our website at:

www.state.ar.us/revenue/rev1.html

If you wish to call for forms, the telephone numbers are: (501) 682-1100 and Text Telephone Device (Hearing Impaired Access) (501) 682-4795.

E. PENALTIES

1. If you owe any additional tax, you must mail your tax return by May 15, 1998. Any return not postmarked by May 15, 1998, unless you have a valid extension, will be considered delinquent. A penalty of one percent (1%) per month for failure to pay and five percent (5%) per month for failure to file, with a maximum of thirty-five percent (35%), will be assessed on the amount of tax due.
2. In addition to any penalty assessed, a penalty of \$500 will be assessed, if any taxpayer files what purports to be a return, but the return does not contain information on which the correctness of the return may be judged, and such conduct is due to a position which is frivolous, or an effort to delay or impede the administration of any State law.
3. If you owe additional tax in excess of \$250, penalty for failure to make a declaration of Estimated Tax and pay on any quarterly due date the equivalent of ninety percent (90%) of the amount actually due, or an amount equal to or greater than the tax liability of the preceding income tax year, a penalty of ten percent (10%) will be assessed. Exception: Individuals whose income from farming for the income year can reasonably be expected to amount to at least two-thirds (2/3) of the total income from all sources for the income year, may file such declaration and pay the estimated tax on or before the fifteenth (15th) day of the second (2nd) month after the close of the income year, or in lieu of filing any declaration, may file an income tax return and pay the full amount of tax on or before the fifteenth (15th) day of the third (3rd) month after the close of the income year. An Arkansas Underpayment of Estimated Tax Form AR2210 should be used to compute the underpayment penalty or to claim an exception for failure to file a declaration of estimated tax for the income year.

F. DEATH OF TAXPAYER OR DEPENDENT

An Arkansas return should be filed for the taxpayer for the year in which the death occurred, regardless of the date of death. The word "DECEASED" should appear after the decedent's name along with the date of death. A surviving spouse may file on the same return with the deceased spouse for the year of death if the survivor does not remarry before the end of that year.

If the decedent qualified as your dependent for the part of the year before death, you may claim the full amount of tax credit for such dependent on your tax return, regardless of when death occurred during the year.

In each of these circumstances you do not have to attach a copy of the death certificate to the return.

G. CREDIT FOR TAXES PAID TO ANOTHER STATE

Arkansas residents are required to report and pay taxes on all of their taxable income. This includes the taxable portion of foreign income as well as income from other states. If you are required to report a part of your income to another state, you may take credit for your out-of-state tax liability on Line 45 of page AR2. A copy of the out-of-state return must be attached. The credit claimed cannot exceed what the tax would be if calculated at Arkansas tax rates.

NOTE: Part-year residents will not be allowed credit for tax owed another state UNLESS the PART-YEAR RESIDENT continues to have taxable income from another state and the other state income is included as taxable income in Column C of the Arkansas return. Nonresidents are not entitled to this credit.

H. RETARDED CHILD CREDIT

Act 523 of 1983 requires a taxpayer claiming a retarded child to file a certified AR1000RC5 every five (5) years. If credit was received on a prior year's return, you do not have to file another AR1000RC5. The Income Tax Section will notify you when you need to recertify your child.

If tax year 1997 is the first year you claim the retarded child credit, you need to attach AR1000RC5 to your 1997 return.

I. DEFINITIONS

1. DOMICILE

This is the place you intend to have as your permanent home, the place you intend to return to whenever you are away. You can have only one domicile. Your domicile does not change until you move to a new location and definitely intend to make your permanent home there. If you move to a new location but intend to stay there only for a limited time (no matter how long), your domicile does not change. This also applies if you are working in a foreign country.

2. FULL-YEAR RESIDENT

You are a FULL-YEAR RESIDENT if you lived in Arkansas all of tax year 1997, or if you have maintained a domicile or Home of Record in Arkansas during the tax year.

3. MILITARY PERSONNEL

The first \$6,000 of U.S. Military Compensation Pay is exempt. U.S. Military Compensation includes wages received from: (A) Army (B) Navy (C) Air Force (D) Marine Corps (E) Coast Guard (F) National Guard (G) Reserve Components and (H) U.S. Public Health Service.

If Arkansas is your Home of Record (HOR) and you are stationed outside the State of Arkansas, you still must file an AR1000 reporting all your income, including U.S. Military Compensation Pay in excess of \$6,000.

NOTE: If you are stationed in Arkansas and your Home of Record is another state, Arkansas does not tax your U.S. MILITARY COMPENSATION PAY. You will however be required to report this income in Column A and/or Column B of the Form AR1000NR to set the proper tax rate as discussed in the nonresident instructions. Arkansas does tax income from Arkansas sources received by you or your spouse while you are stationed in Arkansas, including pay from non-appropriated funds; i.e., exchange, clubs, commissary, etc. This Arkansas income will be listed in Column C of the Form AR1000NR and taxed based upon your Arkansas percentage of the total tax liability.

4. NONRESIDENT

You are a nonresident if you did not make your domicile (home) in Arkansas. A nonresident receiving income from Arkansas sources must file an Arkansas Tax Return AR1000NR regardless of income level. After the tax has been computed on the total income, it must be prorated to determine the amount of liability apportioned to Arkansas.

5. PART-YEAR RESIDENT

Any person who established a domicile (home) in Arkansas or moved out of the State during the calendar year of 1997 is considered a part-year resident. After the tax has been computed on the total income, it must be prorated to determine the amount of liability apportioned to Arkansas.

NONRESIDENTS OR PART-YEAR RESIDENTS MUST FILE ON FORM AR1000NR AND ATTACH A COPY OF THEIR FEDERAL RETURN.

6. DEPENDENTS

You may claim as a dependent any person who received over half of his or her support from you, and earned less than \$2,150 in gross income, and was your:

Child	Mother-In-Law
Stepchild	Father-In-Law
Mother	Brother-In-Law
Father	Sister-In-Law
Grandparent	Son-In-Law
Brother	Daughter-In-Law
Sister	<i>Or, if related by blood:</i>
Grandchild	Uncle
Stepbrother	Aunt
Stepsister	Nephew
Stepmother	Niece
Stepfather	

The term "dependent" does not apply to anyone who is a citizen or subject of a foreign country UNLESS that person is a resident of the United States, Mexico or Canada.

For death of a dependent during the tax year, refer to Section F for instructions.

If your child/stepchild is under age 19 at the end of the year, the \$2,150 gross income limitation does not apply. Your child may have any amount of income and still be your dependent if the other dependency requirements in paragraph 6 are met.

7. STUDENT

If your child/stepchild is a student, under age 24 at the end of the calendar year, the \$2,150 gross income limitation does not apply. The other requirements in paragraph 6 still must be met.

To qualify as a student, your child/stepchild must be a full-time student for five (5) months during the calendar year at a qualified school, as defined by the current Internal Revenue Service directives.

8. GROSS INCOME

Gross income means any and all income (before deductions) that you receive except the kinds of income specifically described in Section J of these instructions.

NOTE: If all or part of your income is described in Section J, the described portion is exempt. You do not pay tax on it. You must read this very carefully.

J. INCOME EXEMPT FROM TAX

1. Money you receive from a life insurance policy because of death of the person who was insured is exempt from tax.

NOTE: You must include any interest payments made to you from the insurer (the insurer is the insurance company that issued the policy) as taxable income.

2. Money you receive from LIFE INSURANCE,

an ENDOWMENT, or an ANNUITY CONTRACT, for which you paid the premiums, is exempt from tax in some cases. Add the money you received in 1997 from any of the above three sources to the money you received from the same sources before 1997. If you received MORE than the total premiums or other payments YOU made in 1997 or any other time, then the excess is taxable and MUST be included in Gross Income.

3. Amounts you receive as child support payments are exempt.
4. You do not pay taxes on gifts, inheritances, bequests or devises. Scholarships, grants and fellowships are exempt from tax. Stipends are taxable in their entirety.
5. Interest you receive from direct United States obligations, its possessions, the District of Columbia, the State of Arkansas, or any political subdivision of the State of Arkansas is exempt from tax. Obligations include bonds and other evidence of debt issued pursuant to a government unit's borrowing power. (Interest due on tax refunds is not exempt income because it does not result from a debt issued by the United States, the State of Arkansas or any political subdivision of the State of Arkansas.) Interest from government securities paid to individuals through a Mutual Fund is exempt from tax.
6. Social Security benefits, workers' compensation, unemployment compensation, railroad retirement benefits, and related supplemental benefits are exempt from tax.
7. The rental value of a home or the housing allowance paid to a duly ordained or licensed minister of a recognized church to the extent that it is used to rent or provide a home. The rental value of a home furnished to a minister includes utilities which are furnished to the minister as part of his compensation. The housing allowance paid to a minister includes an allowance for utilities paid to the minister as part of his compensation to the extent it is to be used to furnish utilities in his home.
8. (a) U.S. Military Compensation Pay has the first \$6,000 of gross income exempt from tax.
(b) If you receive Military Disability income, the entire amount is tax exempt.
9. If you receive income from retirement or disability plans, the first \$6,000 is exempt from tax. Do not adjust for recovery of cost. If you receive income from military retirement, you may adjust your figures if the payment includes Survivor's Benefit Payments. The amount of adjustment will have to be listed on the income statement and supporting documentation will have to be submitted with the return. Total exemption from all plans cannot

exceed \$6,000 per taxpayer.

Private Retirement System: Do not adjust for cost of contributions. (IRA, SEP or deferred annuities do not qualify for the \$6,000 exemption.)

NOTE: A surviving spouse qualifies for the exemption. However a surviving spouse is limited to a single \$6,000 exemption.

K. IF YOU NEED MORE TIME TO FILE

A taxpayer who requests an automatic extension of time to file his or her Federal income tax return (by filing Federal Form 4868 with the IRS) shall be entitled to receive the same extension on the taxpayer's corresponding Arkansas income tax return. In order to take advantage of the federal automatic extension for state purposes, the taxpayer must check the box on the face of the corresponding Arkansas return indicating that he or she has already filed an automatic federal extension. Beginning with the 1997 tax year, the Department will no longer require that a copy of Federal Form 4868 be attached to a taxpayer's state return. The automatic extension extends the deadline to file until August 15th (for a calendar year taxpayer).

A taxpayer who is granted an additional extension of time to file his or her federal income tax return beyond the automatic four (4) month extension period shall be entitled to receive the same extension for the taxpayer's corresponding Arkansas return provided they attach a copy of an approved Federal Form 2688 to the return. The additional extension extends the deadline to file until October 15th (for a calendar year taxpayer).

If you do not obtain a Federal Extension, you must file Arkansas Form AR1055 before the filing due date of May 15th. Send your request to:

Manager
Income Tax Section
P. O. Box 3628
Little Rock, AR 72203-3628
ATTN: Extension

NOTE: The maximum extension that will be granted on an AR1055 is ninety (90) days extending the due date until August 15th.

Interest computed at ten percent (10%) per annum must be paid from May 16, 1998, to the date a return is filed if an extension is used with a tax due return.

The date of the postmark stamped by the U. S. Postal Service is the date you filed your return or request for extension.

If required, attach your approved extension(s) to the face of your tax return WHEN YOU FILE. IF YOU DO NOT ATTACH YOUR EXTENSION, YOUR RETURN WILL BE DELINQUENT AND PENALTIES WILL BE ASSESSED. Inability to pay is not a valid reason to request an Arkansas Extension.

L. HOW TO COMPLETE YOUR ARKANSAS RETURN

Residents of Arkansas need to complete Form AR1000. Nonresidents and Part-Year Residents need to complete Form AR1000NR. The following instructions will apply to both returns unless a specific designation is made.

Please note the areas marked for Residents only, or Part-Year Residents and Nonresidents only.

STAPLE all required W-2(s), schedules and explanations to your return. Use only BLUE or BLACK INK, or TYPE.

If you received your income tax return through the mail, and there is a peel off label, use the label only if it is correct. Be sure that your name, address and Social Security Number is correct. If you are married, check both names and Social Security Numbers for accuracy. Place the label in the identification block of the tax return only if it is correct. If it is not correct or you do not have a label, enter the name, address, and Social Security Number for you and your spouse. Be sure to enter the telephone number for your home and your work.

NOTE: *If you are married filing on the same form, and using different last names, you must separate the last names by use of a slash (/).*

EXAMPLE: *John Q. and Mary M. Doe/Smith or Mary M. and John Q. Smith/Doe.*

Be sure that the placement of the last name matches placement of the first name. You must be legally married to file in this manner.

FILING STATUS

DETERMINING YOUR FILING STATUS

LINE 1, Filing Status 1

Check this box if you are SINGLE or UNMARRIED and DO NOT qualify as HEAD OF HOUSEHOLD. (Read the section for "Line 3" to determine if you qualify for HEAD OF HOUSEHOLD.) Check the boxes on LINE 7A that describe you.

LINE 2, Filing Status 2

Check this box if you are MARRIED and are filing jointly. IF YOU ARE FILING A JOINT RETURN, YOU MUST ADD BOTH SPOUSES' INCOME TOGETHER. ENTER THE TOTAL AMOUNT IN "COLUMN A" on Line 8 through Line 23 UNDER YOUR INCOME. Check the boxes on Line 7A that describe you.

LINE 3, Filing Status 3

To claim yourself as the Head of Household you must have been unmarried or legally separated on December 31, 1997 and meet either 1 or 2 below.

The term "Unmarried" includes certain married persons who live apart, as discussed below.

1. You paid over half the cost of keeping up a home for the entire year, that was the main home of your parent whom you can claim as a dependent. Your parent did not have to live with you in your home:

OR

2. You paid over half the cost of keeping a home in which you lived and in which one of the following also lived for more than six (6) months of the year (temporary absences, such as vacation or school, are counted as time lived in the home):
 - a. Your unmarried child, grandchild, great-grandchild, etc., adopted child, or stepchild. This child does not have to be your dependent, but your foster child must be your dependent.
 - b. Your married child, grandchild, etc., adopted child or stepchild. This child must be your dependent.
 - c. Any other relative whom you can claim as a dependent.

Check the box on Line 3 and check the two (2) or more boxes on Line 7A that describe you.

Married Persons Who Live Apart

Even if you were not divorced or legally separated in 1997, you may be considered unmarried and file as head of household. See Internal Revenue Service instructions for head of household to determine if you qualify.

MARRIED COUPLES READING THIS MAY SAVE MONEY.

If you and your spouse have separate incomes, you will probably want to figure your tax separately.

Couples OFTEN SAVE MONEY by figuring their tax this way. Explained below are two different methods to figure your taxes separately. Use the ONE that suits you best.

METHOD A. List your income separately under Column A (Your Income). List spouse's income separately under Column B (Spouse Income). Figure your tax separately and then add your taxes together. See instructions for Filing Status 4, Line 4 below.

If you use Method A, your net result will be either a COMBINED REFUND or a COMBINED TAX DUE.

METHOD B. File separate individual tax returns. See the instructions for Line 5, Filing Status 5.

If you use Method B, one of you may owe tax and the other may get a refund. In that case, you will have two different situations. Each one must be handled as a separate transaction. The tax due must be paid with the proper tax return and the refund will be made on the other one. YOU MAY NOT OFFSET ONE AGAINST THE OTHER.

Line 4, Filing Status 4

Check this box if you are Married and filing SEPARATELY ON THE SAME TAX RETURN. This is a method of tax computation which may reduce the tax liability if both spouses have income. The net result will be either a combined refund or a combined tax due.

IF ONE SPOUSE HAS A TOTAL NEGATIVE INCOME, YOU MUST FILE STATUS 2, MARRIED FILING JOINTLY.

LINE 5, Filing Status 5

Check this box if you are married and filing separate tax returns. Check the box or boxes that describe only you on Line 7A.

LINE 6, Filing Status 6

Check this box if you are a QUALIFYING WIDOW(ER). Check the box or boxes that describe you on Line 7A.

You are eligible to claim yourself as a QUALIFYING WIDOW(ER) if your spouse died in 1995 or 1996 and you have not remarried and meet the following tests:

1. You were entitled to file a MARRIED FILING JOINTLY or MARRIED FILING SEPARATELY ON THE SAME RETURN, with your spouse for the year your spouse died (it does not matter whether you actually filed a joint return).
2. You did not remarry before the end of the tax year.
3. You have a child, stepchild, adopted child or foster child who qualified as your dependent for the year.
4. You paid more than half the cost of keeping up your home, which is the main home of that child for the entire year except for temporary absences.

PERSONAL TAX CREDITS

LINE 7A. You can claim additional Personal Tax Credits if you can answer "Yes" to any of these questions:

On January 1, 1998, were you age 65 or older?

On December 31, 1997, were you deaf?

On December 31, 1997, were you blind?

Check the box or boxes that apply to you and/or your spouse. You CANNOT claim any of these credits for your children or dependents.

Blindness is defined as any person who cannot tell light from darkness or whose eyesight in the better eye does not exceed 20/200 with corrective lens, or whose field of vision is limited to an angle of 20 degrees. You can claim the Deaf Credit only if the average loss in speech frequencies (500 to 2000 Hertz) in the better ear is 86 decibels, I.S.O., or worse.

Any taxpayer age 65 and older not claiming a retirement income exemption on Line 19, is eligible for an additional \$20.00 (per taxpayer) tax credit. Check the block marked "65 Special".

Add the number of boxes you checked on Line 7A. Write the total in the box provided. Multiply the number by \$20.00 and write your final answer in the space provided.

LINE 7B. List the name(s) of your dependent(s) in the spaces provided on this line. DO NOT INCLUDE YOURSELF AND/OR YOUR SPOUSE. The people you can claim as dependents are described in Section I, Number 6, of these instructions.

Add the number of boxes you checked on Line 7B. Write the total in the box provided. Multiply the number by \$20.00 and write your final answer in the space provided.

LINE 7C. If one or more of your children are retarded, enter the NUMBER in the box on Line 7C and multiply by \$500. Enter the total at the end of this line.

LINE 7D. Total the tax credits from Lines 7A, 7B and 7C. Enter the total on this line and on Line 43.

THE FOLLOWING LINE-BY-LINE INSTRUCTIONS REFER TO BOTH THE AR1000 FULL YEAR RESIDENT AND THE AR1000NR NON-RESIDENT AND PART-YEAR RESIDENT FORMS.

FULL YEAR RESIDENTS MUST USE THE AR1000.

If your filing status is Single, Married Filing Joint, Head of Household, Married Filing Separately on Different Returns, or Qualifying Widow(er), only Column A will be used. Write your income in Column A only. If your filing status is Married Filing Separately on the Same Return both Column A and

Column B will be used. Write your income in Column A and your spouse's in Column B.

NONRESIDENTS AND PART-YEAR RESIDENTS MUST USE THE AR1000NR. ATTACH A COPY OF YOUR FEDERAL RETURN OR YOUR RETURN CANNOT BE PROCESSED.

Column A and Column B of the AR1000NR will be completed the same as full year residents listed above. You must list all of your income as if you were a full year resident. List all of your income from all sources for the entire year.

The income to be listed in Column C will be the total combined income for both spouses earned while you were an Arkansas resident and/or income derived from Arkansas sources.

All three columns will be used to calculate the amount of Arkansas Tax Liability. The total tax must be computed on the income totals in Columns A and B. After all allowable tax credits have been subtracted from the total tax, the remaining balance will be prorated. The percentage for apportionment will be determined by dividing Column C by the total of Columns A and B.

INCOME

Please round off all income figures to the nearest dollar amounts where zeros are printed on the line of the AR1000. For example, if your W-2 Form shows \$10,897.50, round to \$10,898. If the amount on the W-2 Form is \$10,897.49, round to \$10,897.

LINE 8. Add the wages, salaries, tips, etc. listed on your W-2(s). Enter the total on this line.

(Enter U.S. Military Compensation Pay on Line 9A or 9B, page AR1 or NR1, and/or U.S. Military Compensation Retired Pay on Line 19A or 19B, page AR1 or NR1).

Be sure you staple the State copy of each of your W-2(s) and a copy of your 1099-R(s) to the front left margin of the return.

LINE 9A. If you have U.S. Military Compensation Pay, enter gross income in the space provided. You are entitled to a \$6,000 exemption from the gross income. The balance is taxable. Attach W-2(s).

(FILING STATUS 2 ONLY). If you and your spouse both have U.S. Military Compensation Pay, enter the combined gross income in the space provided. The taxpayers are entitled to a \$6,000 exemption from their respective gross income. The balance is taxable. Attach W-2(s).

LINE 9B. (FILING STATUS 4 ONLY). If spouse has U.S. Military Compensation Pay, enter gross income in the space provided. Spouse is entitled to a \$6,000 exemption from the gross income. The balance is taxable. Attach W-2(s).

LINE 10. If you are a duly ordained or licensed minister receiving a housing allowance from your

church and you do not file a Schedule C or C-EZ, complete this line by entering your gross compensation from the ministry less rental value of a home. The balance is subject to tax. (Attach W-2(s) if not using Schedule C or C-EZ).

LINE 11. If you have interest from bank deposits, notes, mortgages, corporation bonds, savings and loan association deposits, and credit union deposits, enter all interest received or credited to your account during the year on the line provided. Arkansas no longer has an interest income exclusion. If the amount is over \$400, fill out form AR4.

LINE 12. If you have dividends and other distributions, enter amounts received as dividends from stocks in any corporation in the space provided. If the amount is over \$400, fill out form AR4.

LINE 13. If you received alimony or separate maintenance as the result of a court order, enter the total amount in the space provided.

LINE 14. If you have business or professional income and file a Federal Schedule C or C-EZ, attach a copy of your Federal Schedule. If you choose this method, enter the total dollar amount(s), net income (or loss), from your Federal Schedule C or C-EZ in the spaces provided. If you do not attach a copy of your Federal Schedule C or C-EZ as described above you must submit a schedule and enter the net income (or loss) in the space provided. Business income may not be split between you and your spouse unless a partnership is legally established. Partnership income must be reported on Form AR1050 with K-1(s) for each partner.

LINE 15. If you have gain or losses from the sale of real estate, stocks, bonds, or gains or losses from capital assets from Partnerships, S Corporations or Fiduciaries, enter your share in the space provided.

For tax years 1991 and after, the amount of capital loss that can be deducted after offsetting capital gains is limited to \$3,000 (\$1,500 per taxpayer if married filing separately on the same return or married filing separately on different returns).

If your capital loss is more than the yearly limit on capital loss deductions, you can carry over the unused part to later years until it is completely used up.

Capital losses sustained for tax year 1990 or prior years cannot be carried forward on your Arkansas Return. One hundred percent (100%) of capital losses for these years were deducted in the year sustained.

Postponement of the gain on the sale of your principal residence may be taken if the new residence is purchased or constructed within two (2) years before or after the date of the sale. The replacement residence must be within the State of Arkansas. If the residence is replaced outside of Arkansas, the gain becomes taxable to Arkansas. Include the AR2119 Sale of Your Home Form in the year the residence was sold.

Over 55 Exclusion of gain on the sale of principal residence is limited to \$125,000 for a single or joint return and \$62,500 for a married person filing separately.

Loss on the sale of a personal residence is not deductible.

Attach the AR1000DGW.

LINE 16. If you received capital gain distributions but do not need Schedule D for other capital transactions enter those distributions on this line.

LINE 17. Enter the ordinary gain or (loss) from Part II of Federal Form 4797. The \$3,000 capital loss limit does not apply.

LINE 18. Use this line to report fully taxable lump-sum distributions, annuities, and regular IRA distributions. Include early withdrawal of IRA distributions in your gross income on this line. List only the amount of withdrawal and attach the Federal schedule showing the tax on premature distribution. Enter ten percent (10%) of the tax from the Federal schedule on Line 41. If you received a lump-sum distribution which does not qualify for the five (5) year averaging treatment, list the total distribution received in 1997. See AR1000TD to determine if you qualify to use the averaging method.

Premature distributions are amounts you withdraw from your IRA or deductible voluntary payments you receive from your employer's plan before you are either age 59 1/2 or disabled. Rollovers of premature distributions are tax exempt.

LINE 19A. You are eligible for the \$6,000 exemption for retirement or disability benefits provided the distribution is from public or private employment related retirement systems, plans or programs. The recipient need not be retired. The method of funding is irrelevant. The exemption may be from either lump-sum or installment payments. The early withdrawal penalty may be applicable even though the exemption is granted.

If you have income from an Employer Sponsored Pension Plan, enter gross amount in the space provided. You are entitled to a \$6,000 exemption from gross income. The balance is taxable. Attach 1099-R(s).

(FILING STATUS 2 ONLY). If you and your spouse both have income from a retirement plan, enter the combined gross income in the space provided. The taxpayers are entitled to a \$6,000 exemption from their respective gross retirement plan income. The balance is taxable. Attach 1099-R(s).

LINE 19B. (FILING STATUS 4 ONLY). If spouse has income from an Employer Sponsored Pension Plan, enter gross income in the space provided. Spouse is entitled to a \$6,000 exemption from gross income. Attach 1099-R(s).

NOTE: Do not adjust for recovery of cost. Include military, civil service, public and private employee sponsored retirement plans.

LINE 20. If you have income from rents and royalties, an estate or trust, profits (whether received or not) from partnerships, fiduciaries, small business corporations, etc., enter the amount as reported on your Federal Schedule E in the space provided. Arkansas allows depletion at the same rates in effect with the Federal Government on January 1, 1991. If you are filing a return on a taxable year that is not the same as the annual accounting period of your partnership or trust, include in the return your distributive share of net profits in the accounting period that ends with your taxable year.

Nonresident beneficiaries pay tax only on Arkansas income.

LINE 21. If you have farm income, enter the amount reported on your Federal Schedule F in the space(s) provided. Farm income may not be split between you and your spouse unless a partnership is legally established. Partnership income must be reported on Form AR1050, with K-1(s) for each partner.

LINE 22. Enter all taxable income for which no other place is provided on the return.

Attach a statement explaining the source and amount of the income. Examples of income to be reported on this line are: prizes, awards, T.V. and radio contest winnings (cash or merchandise), and gambling winnings. You must report reimbursement of medical expenses from a previous year, if you itemized deductions and it reduced your tax. Include amounts you recovered on bad debts that you deducted in an earlier year.

NOTE: *Stipends received as a consideration for any services performed or to be performed are taxable in Arkansas. Educational scholarship or fellowship grants, without conditional consideration, are non-taxable to Arkansas.*

If you had a net operating loss (NOL) in an earlier year to carry forward in 1997, enter it as a negative amount on this line. Attach a statement showing how you figured the amount of loss and the year the loss occurred.

A net operating loss originating during tax year 1987 or after may be carried forward for five (5) years.

LINE 23. Add Lines 8 through 22 and enter the totals in the appropriate columns on this line. Full year residents must use the AR1000. Nonresidents and part-year residents must use the AR1000NR. Column A is used for Filing Status 1, 2, 3, 5 and 6; Columns A and B are used if Filing Status 4. On the AR1000NR Column C will be the total income earned while an Arkansas resident and/or income derived from Arkansas sources.

ADJUSTMENTS

LINE 24. This line is used to report the following adjustments to income: IRA Individual Retirement Account and MSA Medical Savings Account. If you contributed to your own Individual Retirement Account (IRA), certain limitations may apply to the amount you may use as an adjustment to income. If neither you, nor your spouse, are covered by an employer provided retirement plan, the entire contribution is deductible, up to \$2,000 each for all Filing Status'.

If either you, or your spouse, are covered by such a plan, the amount of the deduction depends on the amount of your Adjusted Gross Income (AGI) before the IRA deduction, as shown in the following table:

Use the Federal Worksheet along with your Arkansas Adjusted Gross Income to determine your allowable deduction. Check the appropriate box and enter total.

IF YOUR FILING STATUS IS:	YOUR ALLOWABLE IRA DEDUCTION	
	Phases Out When AGI Exceeds	Will Be Zero When AGI Is
Single, Head of Household, Qualifying Widow(er)	\$25,000.00	\$35,000.00
Married Filing Joint Return (Status 2 or 4)	\$40,000.00	\$50,000.00
Married Filing Separate Return	\$ 0.00	\$10,000.00

A MSA-Medical Savings Account is a trust or custodial account that is created or organized exclusively for the purpose of paying the qualified medical expenses of an "account holder" as well as the taxpayer's spouse and/or dependents. In order to be eligible, a taxpayer must have insurance coverage only under a "high deductible" health plan. High deductible health plan means in the case of self-only coverage, an annual deductible which is not less than \$1,500 and not more than \$2,250, in the case of family coverage, an annual deductible which is not less than \$3,000 and not more than \$4,500, and the out-of-pocket expenses required to be paid under the plan (other than for premiums) for covered benefits does not exceed \$3,000 for self-only coverage and \$5,500 for family coverage

The annual contribution limit is the sum of the monthly limits determined separately based on the individual's status and health plan coverage as of the first day of the month. The monthly limitation for any month is the amount equal to 1/12 of 65% of the annual deductible for an individual with self-only coverage and 1/12 of 75% of the annual deductible for an individual who has family coverage. Check

the appropriate box and enter the total. IF YOU MADE CONTRIBUTIONS TO BOTH AN IRA AND AN MSA, PLEASE ATTACH A STATEMENT OF THE CONTRIBUTIONS YOU OR YOUR SPOUSE MADE TO EACH PLAN.

LINE 25. You may take an adjustment from income for contributions made to a long-term intergenerational trust. This is a trust established for an individual under the age of 18 in order to provide funds for the minor's retirement. The trustee must be a resident of Arkansas and cannot distribute any of the trust's funds to the beneficiary until the beneficiary reaches the age of 55. **Only contributions made after 8-1-97 are deductible. Contributions are limited to \$4,000 per year.**

LINE 26. Employees and self-employed persons (including partners) can deduct certain moving expenses. Expenses incurred in 1997 are deducted on this line as an adjustment to income. Expenses incurred before 1997 that were not previously deducted are only allowed as an itemized deduction on that schedule, line 26.

You can only take this deduction if you moved in connection with your job or business and your change in job location has added at least fifty (50) miles to the distance from your old home to your workplace. If you had no former workplace, your new workplace must be at least fifty (50) miles from your old home. You must attach a completed copy of Federal Form 3903 or 3903F.

If you were reimbursed for any part of your moving expenses, you should report this amount as income on Form AR1000/AR1000NR, Line 8. If this was not included on your W-2, you should add it to the other income on this line.

LINE 27. If you are self-employed and had a net profit for the year, you may be able to deduct part of the amount paid for health insurance on behalf of yourself, your spouse, and dependents.

LINE 28. If you are self-employed and contributed to a "Keogh", H.R. 10 retirement plan or a SIMPLE plan enter the total amount of your contributions in the space provided. The amount of the deduction depends upon the type of plan. In a defined contribution plan, the deduction is limited to the lesser of \$30,000 or twenty-five percent (25%) of the participant's compensation. Contributions to a SIMPLE plan are limited to \$6,000 for any calendar year.

LINE 29. Enter the total interest penalties paid for premature or early withdrawal of certificates of deposit.

LINE 30. If you paid alimony or separate maintenance as the result of a court order, enter the total amount in the space provided. **YOU MUST ENTER** the name and Social Security Number of the person who received the payment.

LINE 31. To claim the Texarkana exemption, you must report ALL the Arkansas income you received and enter the exempted income as an adjustment to the Arkansas income. For W-2(s) income you

must attach Form AR-TX supplied by your employer with your W-2(s).

NOTE: *Taxpayers who claim this exemption must file using their street address in Texarkana, AR or Texarkana, TX. If you use a P.O. Box, this exemption will not be allowed.*

If you live within the city limits of Texarkana, AR, you are allowed a full exemption from Arkansas income taxation. Part-year Texarkana residents should claim the exemption only on the income earned while a resident of Texarkana, AR.

If you live within the city limits of Texarkana, TX, you are allowed to deduct only the income you earned in the city limits of Texarkana, Arkansas. All other Arkansas income is taxable to you.

LINE 32. If you have a permanently disabled child, you can take an adjustment from income of \$500.

LINE 33. Add Lines 24 through Line 32. Enter the total on this line.

LINE 34. Subtract the total on Line 33, Total Adjustments, from the total on Line 23, Total Income. Enter the balance on this line. This is your Adjusted Gross Income.

TAX COMPUTATION

LINE 35. Enter the total from Line 34 (A and B) page AR1 (Adjusted Gross Income) on this line.

LINE 36. Enter the total Itemized Deductions from Line 27, page AR3 if Filing Status 1, 2, 3 or 6.

If you are Filing Status 4 or 5, be sure to enter the correct amount from Lines 28B or 29B, page AR3.

LINE 37. Subtract Line 36 from Line 35. This is your net taxable income.

LINE 38. SELECT THE PROPER TAX TABLE

You will fall into one of the four (4) categories listed below:

- (1) You qualify for the Low Income Table
- (2) You do not itemize
- (3) You itemize deductions
- (4) You use the AR1000DGW Schedule

YOU QUALIFY FOR THE LOW INCOME TABLE

If you meet the requirements below and your Adjusted Gross Income falls within the following limits:

\$0 - \$11,400
\$0 - \$16,200

Filing Status 1 - (Single)
Filing Status 2 - (Married Filing Joint - all income reported in column A) or
Filing Status 6 - (Qualifying Widow(er) with

dependent child)
Filing Status 3 -
(Head of Household)

\$0 - \$16,200

NOTE: *Taxpayers filing Status 4 or 5 MAY NOT use the Low Income Tax Table 1.*

You need not be a full year resident of Arkansas. Part-year resident(s) or nonresident(s) do qualify.

If you use the \$6,000 exclusion for military compensation pay or employer sponsored pension income, you do not qualify. You may elect NOT TO USE the \$6,000 exclusion to which you are entitled and use the Low Income Tax Table if you fall within the income limits.

Find the amount of your income on Tax Table 1. Locate the tax on your income under the column that describes your Filing Status. Enter the tax you owe on Line 38, page AR2.

I IF YOU DO NOT ITEMIZE YOUR DEDUCTIONS

Your net taxable income is listed on Line 37. Be sure to use the correct column in the Standard Deduction Tax Table 2.

After you have found the correct tax, enter the amount on Line 38A if Filing Status is 1, 2, 3, 5 or 6. Use Lines 38A and 38B if Filing Status 4, Married Filing Separately on the same return. The correct standard deduction has been computed in this table.

I IF YOU ITEMIZE YOUR DEDUCTIONS

Find your income amount from Line 37 in the Itemized Deduction Tax Table 3. The amount of tax you owe is given to the right of your income. Write the amount of tax you owe on Line 38. Married filing separately taxpayers (Status 4) select and enter the tax for each of you on Lines 38A and 38B.

I IF YOU ITEMIZE YOUR DEDUCTIONS, YOU MUST USE THE ITEMIZED DEDUCTION TAX TABLE (TAX TABLE 3).

NOTE: *If you file Status 5, and one spouse itemizes, both must itemize.*

I USE THE ARKANSAS CAPITAL GAINS AND LOSSES ADJUSTMENT SCHEDULE

If your ordinary income plus capital gains exceeds \$25,000 you compute your tax liability using the Arkansas Capital Gains and Losses Adjustment Schedule. Complete Form AR1000DGW and enter the tax on Line 38. Married filing separately taxpayers (Status 4) enter the tax for each of you on Line 38A and 38B. Attach schedule as page 3 of your return.

If it is to your advantage to use Table 2 or Table 3, instead of the AR1000DGW, you may do so.

LINE 39. Add Lines 38A and 38B together. Enter total on Line 39.

LINE 40. If you received a lump-sum (total) distribution from a qualified retirement plan during 1997,

you may be eligible to use the averaging method to figure some of your tax at a lower rate. Form AR1000TD must be completed and attached to your return. Please read the instructions on the back of Form AR1000TD carefully to be sure you are eligible to use this method. Enter the amount from Form AR1000TD on Line 40, Form AR1000.

LINE 41. Taxpayers subject to IRA or employer qualified retirement plan penalties and tax on their Federal Return are subject to penalties and tax on their State Return. Enter ten percent (10%) of the Federal amount from the applicable section of the Federal Form 5329, on this line. Be sure to enter total distributions from Part II Form 5329, on Line 18, page AR 1.

LINE 42. Add Lines 39, 40 and 41. Enter the total on this line.

TAX CREDITS

LINE 43. Enter the total personal tax credits from Line 7D in the space provided.

LINE 44. Initiated Act 1 provides for an individual income tax credit for contributions to political candidates and candidates for positions in subdivisions of the state, e.g. city, county, school districts, etc. The credit allowed shall be the aggregate contributions not to exceed fifty dollars(\$50) on an individual return, filing status' 1,3,5 and 6, or one hundred dollars(\$100) on a joint return filing status' 2 and 4.

LINE 45. If you are an Arkansas resident and included income on your Arkansas Return that was also taxed by another state, you may claim a credit for the taxes paid to the other state on that income.

A tax credit is allowed for a resident shareholder's pro rata share of any net income tax paid by an S Corporation to a state that does not recognize S Corporation status.

The income tax withheld by another state is NOT the amount of tax you owed the other state. For that reason, YOU MUST ATTACH A COPY OF THE TAX RETURN YOU FILED WITH THE OTHER STATE(S) to your Arkansas Return. Make sure it is signed. Write the amount of the net income tax liability to the other state(s) in the space provided.

NOTE: *This credit cannot exceed the Arkansas Income Tax on the same income and cannot exceed the total tax you owe Arkansas. Nonresidents cannot claim any credit on their Arkansas Return.*

LINE 46. Child Care Credit allowed on the Arkansas Return is computed by taking ten percent (10%) of the amount taken on your Federal Return. A copy of the "Credit for Child and Dependent Care Expenses" Federal Form 2441 or a copy of your 1040A must be attached to your Arkansas Return. If this credit is for approved early childhood credit, see instructions for Line 54.

LINE 47. Act 951 of 1997 allows an income tax credit for child adoption expenses. The credit is computed by taking twenty percent (20%) of the amount taken on your Federal Return. A copy of Federal Form 8839 must be attached to your Arkansas Return.

LINE 48. Business and Incentives Credit. From the Business and Incentives Tax Credits summary schedule (AR1020BIP), enter the total allowable credits in the space provided. The various credits available are listed below:

Manufacturer's Investment Credit
Economic Development
Enterprise Zone Program
Youth Apprenticeship
Water Resource Conservation
Arkansas Economic Development
Private Wetland & Riparian Zone
Tourism Project Development
Waste Reduction & Recycling Equipment
Biotechnology Development
Employer Provided Early Childhood Program
Motion Picture Industry
Motorcoach Carrier Incentives
Capital Development Corporation
Equipment Donation or Sale Below Cost
County & Regional Industrial Development

NOTE: *For details on each of these tax credits, please refer to the Business and Incentive Tax Credit Package which contains forms required for each credit administered by the Division. Business Tax Credit forms may be obtained from the Department of Finance and Administration, Tax Credits Section, P. O. Box 1272, Room 203, Little Rock, Arkansas 72203, telephone number (501)682-7106.*

LINE 49. Add Lines 43 through Line 48. Enter the total on this line.

LINE 50. Subtract Line 49 from Line 42. This is your net tax. If Line 49 is greater than Line 42, enter 0.

IF YOU ARE FULL YEAR RESIDENTS, please go to the instructions for Line 51.

TAX APPORTIONMENT FOR NONRESIDENTS AND PART-YEAR RESIDENTS

NONRESIDENTS AND PART-YEAR RESIDENTS ONLY, please read the following instructions closely to determine the correct amount of your Arkansas Tax Liability. You must attach a copy of your Federal 1040, 1040A, or 1040EZ.

The instructions for Line 50A through Line 50D apply only to Nonresidents and Part-Year Residents. Full Year Residents must skip directly to Line 51.

LINE 50A. Enter the total income from Line 34, Column C.

LINE 50B. Add Columns A and B from Line 34. Enter the total in the space provided.

LINE 50C. Divide the amount on Line 50A by the amount on Line 50B to arrive at your Arkansas percentage of income. Round the percentage to the nearest fractional percent. If less than 1%, do not round to zero, carry the figure out to eight places to the right of the decimal.

Example: \$2,500 / \$325,000 = .00769231

LINE 50D. Multiply the percentage on Line 50C by the amount on Line 50. This is the amount of apportioned tax liability on your Arkansas income.

PAYMENTS

LINE 51. Arkansas State Income Tax withheld is listed on your W-2(s). You have already paid this amount of tax during the year. Write it in the space provided. If you have MORE THAN ONE W-2, be sure to combine the Arkansas Income Tax withheld on all W-2(s). Write the total in the space provided.

IF YOU AND YOUR SPOUSE ARE FILING ON THE SAME RETURN, add the Arkansas State Income Tax withheld on both your W-2(s). Enter combined total in the space provided.

WHAT TO DO IF YOU DO NOT HAVE A W-2

If you did not receive (or lost) your W-2(s) and if Arkansas tax was withheld from your income, ask your employer(s) for copies of your W-2(s)

If you have made a reasonable effort to get your W-2(s) and you still do not have one, complete a Federal Form 4852. On the Federal Form 4852, write the amount of State Income Tax withheld. You will also need to attach a copy of a check stub or other documentation to support your figures. Attach these items securely to your State return.

CAUTION: *You WILL NOT receive credit for tax withheld or receive a tax refund, unless you attach the CORRECT AND LEGIBLE W-2(s) or explanations to your tax return.*

DO NOT include FICA, Federal Income Tax, or tax paid to another state in the amount you write on Line 51.

DO NOT try to correct a W-2(s) yourself. Your employer must issue you a corrected W-2(s). If ARKANSAS State tax was withheld in error, your employer must refund it to you.

LINE 52. If you made an Estimated Declaration and paid tax on 1997 income OTHER THAN wages, salaries, tips, etc., write the amount paid in this space. The only amounts you may put on Line 52 are payments you made on a 1997 Declaration of Estimated Income Tax which includes the January 15, 1998 installment and/or credit brought forward from your 1996 tax return.

DO NOT include PENALTIES OR INTEREST as part of the amount paid.

If you and your spouse filed a JOINT declaration and you and your spouse choose to file your annual returns on separate forms this year, the payment made under the joint declaration of estimate will be credited to the primary filer.

NOTE: If you are filing prior year tax returns past the due date of the tax return, the refund/overpayment from those tax returns can not be carried forward as estimated tax. These amounts will be refunded to the taxpayer. If you were supposed to receive a refund from a prior year return and never did receive it, do not list that amount on the estimated carry forward line of your current year tax return. Contact our department and we will research the information concerning the status of the prior year refund.

LINE 53. If you filed an extension request with the State and paid tax with your request, write the amount paid in the space provided.

LINE 54. Enter the approved early childhood credit equal to twenty percent (20%) of the Federal Child Care Credit to individuals with a dependent child which is placed in an approved Child Care Facility so that the parent or guardian may pursue gainful employment. An approved child care facility is a facility approved by the Arkansas Department of Education as having an appropriate Early Childhood Program as defined by Arkansas law. Enter certification number on this line where indicated and attach Federal Form 2441 or 1040A, [twenty percent (20%) of Federal Credit allowed] and Certification Form AR1000EC.

LINE 55. Add amounts on Lines 51, 52, 53 and 54 together. This is your TOTAL TAX PAID. Write your total in the space provided.

FIGURE YOUR TAX DUE OR TAX REFUND

LINE 56. If Line 55 is more than Line 50 of the AR1000 or Line 50D of the AR1000NR you overpaid your tax. Write the difference on Line 56. This is your overpayment. If you want a refund only, skip Lines 57 through 59. Enter the amount of refund on Line 60.

REFUND INFORMATION FURNISHED TO THE INTERNAL REVENUE SERVICE

If you itemized deductions on your 1997 Federal Income Tax Return and did not adjust the amount you claimed for "State income taxes paid" by the refund you received, you MUST report the refund as part of your 1998 income on your Federal Return next year. This information is now being furnished to the IRS.

LINE 57. You can apply part or all of the tax you OVERPAID in 1997 to what you think will be your tax in 1998. Write in the amount you want carried forward on Line 57. The overpayment will be applied directly to your 1998 Estimated Account from your 1997 AR1000 or AR1000NR.

NOTE: The amount you carryover to pay 1998 taxes will only be credited to the primary filer. It cannot be divided between you and your spouse.

If you wish to apply only part of Line 56 to pay 1998 tax, you will get a refund for the rest of your overpayment.

LINE 58. If you wish to contribute a portion or all of your overpayment to the Arkansas Disaster Relief Program, enter the amount of the donation on this line.

LINE 59. If you wish to contribute a portion or all of your overpayment to the U.S. Olympic Fund, enter the amount of the donation on this line.

LINE 60. Subtract Lines 57, 58 and 59 from Line 56. This is the amount to be refunded to you. If your refund is less than \$1.00 you must write a letter requesting the refund.

SET OFF REFUNDS

If you, your spouse or former spouse owes a debt to the Department of Finance and Administration, State supported colleges, universities and technical institutes, Child Support, the Department of Human Services, the Department of Higher Education, Arkansas Circuit, Juvenile and Chancery courts, or the Internal Revenue Service, and you have filed an Arkansas State Income Tax return with them, your refund is subject to being withheld in order to satisfy the debt and may have all or part of your Income Tax Refund withheld.

If your refund has been applied to a debt of one of these agencies, you will receive a letter advising which agency has claimed all or part of your refund.

If the debt has already been satisfied, it is the agency's responsibility to refund any Set Off amount paid to the agency in error. Contact the agency at the telephone number furnished to you on your "Adjustment Letter" to resolve any questions or differences.

NOTICE TO MARRIED TAXPAYERS

If only one of the married taxpayers owes the debt, the taxpayer who is not liable can avoid having his/her refund applied to the debt if both taxpayers file Status 5, married filing separately on different returns.

LINE 61. If Line 50 of the AR1000 or Line 50D of the AR1000NR is more than Line 55, you have additional tax to pay. Subtract Line 55 from Line 50 of the AR1000 or Line 50D of the AR1000NR. Write the amount on Line 61. This is the TAX YOU OWE. Attach a check or money order to your return. Write your Social Security Number on the check or money order, and make your check payable to: Department of Finance and Administration P. O. Box 2144, Little Rock, AR 72203-2144 on or before May 15, 1998. If the tax you owe is less than \$1.00, no remittance is required.

NOTE: Do not send currency or coin by mail. Postage stamps are not accepted.

You may have to pay an additional charge if the tax you owe is more than \$250 and you owe it because you did not file a Declaration of Estimated Tax required by Arkansas Tax Codes, or you did not pay adequate installments on your estimated tax.

LINE 61A. Enter the exception number from Part 3, or the computed penalty from Line 18 of AR2210 in the appropriate box.

NOTE: Form AR2210 must be attached and the exception number entered in the box on Line 61A to claim any exclusion from the underestimate penalty.

LINE 61B. Enter amount of penalty from Line 18, Form AR2210.

LINE 61C. Add Lines 61 and 61B. Enter total on this line.

LINE 62. List any income not subject to Arkansas tax in the space provided.

NOTE: This entry is a memorandum entry only. Identify the payer and the amount received. See page AR4 for nontaxable interest schedule.

DO NOT FORGET TO SIGN YOUR NAME, WRITE THE DATE AND ASSEMBLE YOUR RETURN ACCORDING TO THE INSTRUCTIONS.

Your tax return will not be legal and cannot be processed unless you SIGN IT. Write in the DATE. If you and your spouse are filing a joint tax return or filing separately on the same tax return, both of you must sign it.

If someone else prepares your return, that person must sign and complete the Preparer Information section on page AR2.

IF YOU PREPARE YOUR OWN RETURN, DO NOT USE THIS SECTION.

IN CASE THE IRS AUDITS YOU

If the Internal Revenue Service examines your return for any tax year and changes your net taxable income, you must, within thirty (30) days from the receipt of the notice and demand for payment by the Internal Revenue Service, report to the Arkansas Department of Finance and Administration on an amended Arkansas income tax return the corrected federal tax, taxable income, or taxable estate for the taxable period covered by the change.

File an amended return for the year(s) involved. The tax due or refund due must be shown on Form AR1000A/AR1000ANR. Attach a copy of the Federal Changes to your amended return. If you fail to notify this Department in thirty (30) days and do not file the required amended return, the Statute of Limitations will remain open for eight (8) years on the year(s) in question. Additional interest will be figured on any tax you owe the State of Arkansas.

IF YOU HAVE QUESTIONS ABOUT YOUR TAX RETURN OR REFUND

If you have any questions when you fill out your Individual Income Tax Return, please let us know.

Here are some addresses and phone numbers you can use:

TAX OR REFUND INFORMATION

IF YOU LIVE IN PULASKI COUNTY

Phone (501) 682-0200 or come by our office:
7th & Wolfe, Little Rock, Arkansas
Joel Y. Ledbetter Building, Room 224

IF YOU LIVE OUTSIDE PULASKI COUNTY

Phone (at no cost to you)
1-800-438-1992

Correspondence about your AR1000 must be addressed to P.O. Box 3628, Little Rock, AR 72203-3628. Include your Social Security Number when making any inquiry about your return.

REGARDLESS OF THE METHOD OF COMPUTATION YOU SELECTED, BE SURE TO SELECT THE TAX FROM THE CORRECT TABLE. REFER TO THE HEADINGS ABOVE EACH COLUMN OF THE TAX TABLE TO INSURE THE TAX SELECTED IS CORRECT FOR YOUR FILING STATUS.

INSTRUCTIONS FOR STANDARD DEDUCTIONS

After arriving at your net taxable income on Line 37, go to the Standard Deduction Tax Table 2. If you filed Status 1, 2, 3 or 6, select your tax from the first Column of the table. If you filed Status 4 or 5, select your tax from the second Column of the table. The standard deduction of ten percent (10%) up to a maximum of \$1,000 for Filing Status 1, 2, 3 or 6 and ten percent (10%) up to a maximum of \$500 for Filing Status 4 or 5 has been computed into the tax table.

INSTRUCTIONS FOR ITEMIZED DEDUCTIONS

MEDICAL AND DENTAL EXPENSES

List only amounts that you paid, and for which you were not reimbursed.

LINE 1. MEDICAL AND DENTAL EXPENSES: Enter the total of your medical and dental expenses, after you reduce these payments by any payments received from insurance or other sources. Include amounts you paid for doctors, dentists, nurses, hospitals, prescription medicine and drugs and for insulin. Also include the total amount you paid for insurance premiums for medical and dental care, amounts paid for transportation and lodging and other expenses such as hearing aids, dentures, eyeglasses and contact lenses.

LINE 2. Enter amount from Form AR1000/AR1000NR, Line 34A and 34B. Enter the total on this line.

LINE 3. Multiply Line 2 by 7.5% (.075). Enter the total on this line.

LINE 4. Subtract Line 3 from Line 1. Enter the total on this line.

TAXES

LINE 5. You may deduct taxes you paid on property you own that was not used for business. Do not include any special assessment or levy taxes.

You cannot deduct Arkansas Income Taxes, Federal Income Taxes, Estate Taxes, Improvement Taxes, Federal Social Security Taxes, Hunting and Fishing Licenses, Dog Licenses or Cigarette and Beverage Taxes.

LINE 6. You may deduct Personal Property Taxes, taxes paid to a Foreign Country on income taxed on this return, and City Income Tax on this line.

LINE 7. Add the amounts on Lines 5 and 6. Enter the total on this line.

INTEREST EXPENSE

LINE 8. You may deduct the home mortgage interest paid to a bank or other financial institution on this line.

The deduction is generally limited to interest attributable to a debt for not more than the cost of the principal, and/or second residence, plus improvements.

LINE 9. Deduct home mortgage interest paid to individuals on this line and list that person's name and address.

LINE 10. Enter the amount of deductible points on this line. Deductible points are determined by these requirements:

- (1) Incurred in the purchase or improvement of the taxpayer's principal residence;
- (2) The charging of points must reflect an established business practice in the geographical area where the loan is made; and
- (3) The deduction allowed cannot exceed the number of points generally charged for the type of transaction. Points paid in refinancing a mortgage must be amortized over the life of the loan.

NOTE: In order to deduct the full amount of the points paid, payment of the points must be made from separate funds brought to the loan closing.

LINE 11. Enter deductible investment interest on this line. The amount of the deduction is limited to the amount of investment income. Interest that is disallowed because of the limitation can be carried forward to the next year and is deducted to the extent of the limitation in the carryover year. Attach Federal Form 4952.

LINE 12. Add Lines 8, 9, 10 and 11. Enter the total on this line.

CONTRIBUTIONS

LINE 13. Enter your total contributions made in cash or by check. If you gave \$3,000 or more to any one organization, show to whom and how much you gave. If you have non-cash contributions of \$500, please attach Federal Form 8283.

LINE 14. In addition to other contributions, Act 818 of 1983 as amended by Act 525 of 1985 provides for a deduction for the value donated in artistic, literary and musical creations. The following qualifications must be met in order for the deduction to be deductible:

1. The taxpayer making the donation must derive at least fifty percent (50%) of his/her current or prior year income from art related profession.

2. If fair market value of the art work exceeds \$1,000, it must be verified by an approved independent appraiser.
3. Donation receipt, with estimated value or appraisal document must be attached to contributor's tax return.
4. Museum, Art Gallery, or Non Profit Charitable Organizations receiving art work must be qualified under Section 501(C)(3) of the Internal Revenue Code and located in Arkansas.
5. Deduction for donated art work cannot exceed fifteen percent (15%) of taxpayer's gross income for calendar year of donation.

LINE 15. If you made a contribution to the Arkansas Disaster Relief Program or to the U. S. Olympic Committee Program on your 1996 Arkansas Tax Return by applying a part of your refund, or by sending a check, you may deduct the contribution here.

LINE 16. Other deductible contributions:

- (1) Unreimbursed amounts spent to maintain an elementary or high school student (other than a dependent or relative) in a taxpayer's home under a program by a charitable organization.
- (2) A gift of property to a non-profit organization. Attach a description of the property, date of gift and method of valuation. For each gift in excess of \$500, list any conditions attached to the gift, manner of acquisition and cost or basis if owned by you for less than five (5) years, and attach a signed copy of appraisal.

NOTE: *Payments to private academies or other schools for the education of dependents are not deductible as contributions.*

LINE 17. If you made contributions in excess of fifty percent (50%) of your adjusted gross income, you may carry the excess deduction over for a period of five (5) years.

If you are deducting an excess contribution from a

previous year, enter the amount and year of the original contribution.

LINE 18. Add Lines 13, 14, 15, 16 and 17. Enter the total on this line.

CASUALTY AND THEFT LOSSES

LINE 19. The method of computing casualty or theft losses is the same as Federal method with the \$100 exclusion. Attach Federal form or supporting documents. The amount of each loss must exceed ten percent (10%) of your adjusted gross income.

If you had a Disaster Loss in 1997 (on property located in an area designated by the President of the United States as a disaster area), you may elect to deduct the loss as an itemized deduction in 1997. Please attach a Federal schedule listing the disaster loss.

A disaster loss is the only loss which may be carried back. You may amend your 1996 return to report a disaster loss. If you elect to amend, do not report the loss on your 1997 return.

MISCELLANEOUS DEDUCTIONS SUBJECT TO THE 2% AGI LIMITATIONS

LINE 20. Unreimbursed employee business expenses are listed on this line. Be sure to attach a Federal Form 2106 to your return. The State recognizes the Federal mileage allowance for computing business travel expenses.

LINE 21. Other deductions. If deductions are itemized, you can deduct authorized expenses for which no other place is provided on the tax return such as (a) union or professional dues, (b) tax return preparation fees, (c) expenses for safety equipment, (d) entertaining customers, etc. (e) tools, supplies, or (f) fees paid to employment agencies. Attach supporting schedule or statements.

LINE 22. Add Lines 21 and 22 and enter the total amount on this line.

LINE 23. Enter amount from Form AR1000/AR1000NR, Line 34A and 34B. Enter total on this line.

LINE 24. Multiply Line 23 by 2% (.02). Enter the total on this line.

LINE 25. Subtract Line 24 from Line 22. Enter the total on this line. This is your allowable miscellaneous deductions.

OTHER MISCELLANEOUS

LINE 26. Enter the amount of miscellaneous deductions not subject to the 2% AGI limit on this line. Attach a detailed schedule of each deduction.

LINE 27. Add Lines 4, 7, 12, 18, 19, 25 and 26. Enter the total on this line. If the amount(s) on AR1000/AR1000NR Line 34A and 34B are greater than \$121,200 (\$60,600 if married filing separately on separate returns), you must complete the itemized deduction worksheet to figure the amount you may deduct.

PRORATED ALLOWABLE DEDUCTIONS

LINE 28A and 29A. If you are filing separately, Status 4 or 5, you must prorate your itemized deductions. Add the adjusted gross income (Line 35, Page AR2) for you and your spouse. Divide your income by the total of both incomes, and round to the nearest whole percent.

For example 35.5% should be rounded to 36%, 35.4% should be rounded to 35%. This is your percentage for computing prorated allowable deductions. Enter on Line 28A. Subtract that percentage from 100%. The remainder is the spouse's percentage. Enter on Line 29A.

LINE 28B and 29B. Multiply the Total Itemized Deductions by your computed percentages. Enter on Lines 28B and 29B, also on Lines 35A and 35B, page AR2.

Worksheet for Self-Employed Health Insurance Deduction - Line 27

(Keep for your records)

1. Enter the amount paid in 1997 for health insurance for 1997 for you, your spouse, and dependents. 1. _____
2. Percentage used to figure the deduction. 2. _____ x .40
3. Multiply Line 1 by the percentage on Line 2. 3. _____
4. Enter your net profit and any other income* from the business under which the insurance plan is established, minus any deductions you claim on Form AR1000/AR1000NR on Line 28. 4. _____
5. Enter the smaller of Line 3 or Line 4 here and on Form AR1000/AR1000NR, Line 27.
Do not include this amount in figuring any medical expense deduction on Arkansas Itemized Deduction Schedule. 5. _____

* *Earned income includes net earnings and gains from the sale, transfer, or licensing of property you created. It does not include capital gain income. If you were a more than 2% shareholder in an S corporation, earned income is your wages from that corporation.*

Worksheet for Total Itemized Deductions

(Keep for your records)

Page AR3, Line 27.

People with higher incomes may not be able to deduct all of their deductions. If the amount on Form AR1000/AR1000NR Lines 35A and 35B is more than \$121,200 (\$60,600 if married filing separately on separate returns), use the worksheet below to figure the amount you may deduct.

1. Add the amounts on page AR3, Lines 4, 7, 12, 18, 19, 25 and 26.
Enter the total. 1. _____
2. Add the amounts on page AR3, Lines 4, 11, 19, plus any gambling losses included on Line 26.
Enter the total. 2. _____
3. Subtract Line 2 from Line 1.
(If the result is zero, STOP HERE; enter the amount from Line 1 above on page AR3, Line 27)..... 3. _____
4. Multiply the amount on Line 3 by 80% (.80).
Enter the result. 4. _____
5. Enter the amount from AR1000/AR1000NR, Line 35.
(Total columns A and B, if Filing Status 4)..... 5. _____
6. Enter \$121,200.
(\$60,600 if married filing separately on separate returns)..... 6. _____
7. Subtract Line 6 from Line 5. (If the result is zero or less, STOP HERE; enter the amount from
Line 1 above on page AR3, Line 27). 7. _____
8. Multiply the amount on Line 7 by 3% (.03).
Enter the result. 8. _____
9. Compare the amounts on Line 4 and Line 8 above.
Enter the SMALLER of the two amounts here. 9. _____
10. Total Itemized Deductions. Subtract Line 9 from Line 1.
Enter the result here and on page AR3, Line 27. 10. _____

Mileage and Depletion Allowances

- | | |
|----------------------------------|--------------------|
| 1. Business | 31.5 cents a mile |
| 2. Charitable..... | 12 cents a mile |
| 3. Mail Carrier (Rural)..... | 47.25 cents a mile |
| 4. Medical and Moving | 10 cents a mile |
| 5. Depletion (gas and oil) | Same as Federal |

Individual Income Tax Information Hot-Line

(501) 682-1100 or 1-800-882-9275 (In Arkansas Only)

This system is designed to allow taxpayers to access general information about filing 24 hours a day. Personal assistance will be available during our normal business hours (Monday through Friday - 8:00 a.m. to 4:30 p.m.). The areas that can be reached by this system are as follows:

Taxpayer Assistance Branch	Forms Branch
Refund Branch	Amended Branch
Audit and Examination Branch	Estimated Branch
Withholding Branch	Delinquent Income Tax Branch

Hearing Impaired Access for Information,
Assistance and Forms.....(501) 682-4795.
This number can only be reached by use of a Text Telephone Device.

Other Useful Telephone Numbers

Corporate Income Tax Information	(501) 682-4775
Estate Tax Information	(501) 682-7235
Franchise Tax Information, Corporate	(501) 682-3464
Internal Revenue Service	
Assistance.....	1-800-829-1040
Forms.....	1-800-829-3676
Property Tax Refund Information	(501) 682-7265
	1-800-482-1167
Sales & Use Tax Information.....	(501) 682-7104